San Francisco Health Service System
Health Service Board

Overview of Health Plan Underwriting

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Overview of Health Plan Underwriting—Contents

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***For More Information**—reference four-part SFHSS Non-Medicare Healthcare Plan Rating Methodologies postings under Board Education section of sfhss.org*

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Plan Funding Types

Plan Funding Types

Three Types of Plan Funding Utilized by San Francisco Health Service System (SFHSS) Health Plans

1) Self-Funding: SFHSS pays health plan claim amounts plus plan administrative fees

2) Flex-Funding: SFHSS pays most health plan claim amounts, subject to certain financial elements that are insured by the health plan[1], plus plan administrative fees

3) Fully Insured: SFHSS pays insurance premiums set by the health plan which are intended to cover all health plan projected costs (claims and administrative costs)

[1] For SFHSS Flex-Funded HMO plans offered through Blue Shield of California, the insured financial elements include $1 million per covered life annual large claim pooling and annual maximum claim liability at 125% of expected claims.

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Plan Funding Types—Self-Funded

Funding Method	Self-Funded
Funding Method Description	Claim dollars based on services delivered to members are paid by the Trust, along with plan administrative fees to manage the plan (process claims, provide call center for members, etc.).
Who sets the recommended SFHSS plan rates?	Aon actuary using Aon-determined cost trend assumptions and health plan-determined administrative fees (and required legislative fees).
Advantages of Self-Funded	▪ No insurance cost loads for risk margin/profit. ▪ Lower claim amounts for cost management initiatives present more quickly in plan experience. ▪ Greater plan design flexibility when plan is offered across multiple states.
Disadvantages of Self-Funded	▪ Adverse claim experience flows directly to employer. ▪ Potential volatility between budgeted expense and actual claim experience.
SFHSS Self-Funded Health Plans	UnitedHealthcare (UHC) PPO "City Plan“ Delta Dental of California (Delta Dental) Active Employee PPO
HSB Rate Stabilization Policy Applies?	Yes

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Plan Funding Types—Flex-Funded

Funding Method	Flex-Funded
Funding Method Description	Insurance approach where most claim dollars based on services delivered to members are paid by the Trust, but with fixed costs for certain health care services ("capitation") as well as plan administrative fees and large claim reinsurance mechanisms (e.g., current large claim "pooling" at $1 million per covered life annually as well as maximum claim liability at 125% of expected).
Who sets the recommended SFHSS plan rates?	Aon actuary using plan-determined cost trend assumptions that are validated by Aon actuary, and health plan-determined administrative/large claim pooling fees (and required legislative fees).
Advantages of Flex-Funded	▪ Same benefits as self-funding, with added large claim protection via any individual large claim pooling and/or overall plan maximum claim liability mechanisms in place via flex-funding.
Disadvantages of Flex-Funded	▪ Adverse claim experience outside of large claim insurance mechanisms flow directly to employer. ▪ Potential volatility between budgeted expense and actual claim experience. ▪ Potential for higher insurance mechanism costs for individual large claim pooling/maximum claim liability protection than actual reimbursed experience through these insurance mechanisms.
SFHSS Flex-Funded Health Plans	Blue Shield of CA (BSC) Access+ HMO Blue Shield of CA (BSC) Trio HMO
HSB Rate Stabilization Policy Applies?	Yes

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Plan Funding Types—Fully Insured

Funding Method	Fully Insured
Funding Method Description	Health plan sets fixed dollar plan premiums to cover expected claim costs for health care services by members, as well as plan administrative fee costs.
Who sets the recommended SFHSS plan rates?	Plan's actuary using plan-determined cost trend assumptions which are scrutinized by Aon actuary, and health plan-determined admin fees/large claim pooling adjustments (and required legislative fees).
Advantages of Fully Insured	▪ Fixed insurance rates mean any budget-to-actual cost variation is limited to shifts in plan enrollment.
Disadvantages of Fully Insured	▪ Insurance cost loads have potential to create higher premium levels than would be reflected in ongoing self-funded claims and fees (including provision for risk margin/profit and, in certain cases, state insurance premium taxes). ▪ In certain cases, conservative underwriting assumptions could influence higher premium rates than expected plan experience would appear to require.
SFHSS Fully Insured Health Plans	All Kaiser Permanente (Kaiser) HMO plans UHC Medicare Advantage PPO Delta Dental Retiree PPO Delta Dental DeltaCare HMO UHC Dental HMO Vision Service Plan (VSP) Vision
HSB Rate Stabilization Policy Applies?	No

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The Underwriting Process

The Underwriting Process—Five Primary Steps

Determining Needed Plan Rate Changes For Next Year—Five Step Process

- Completion of these five steps below produces an aggregate cost projection based on current plan enrollment for the next plan year (right now, the 2021 plan year)

1. Start With Prior Period Claims
2. Apply Health Care Trend Inflation Factor (Price, Utilization, New Technology)
3. Account for Design and Headcount Changes
4. Add Administrative and Other Fees
5. Add SFHSS-specific cost elements

- Next, the Aon and plan actuaries compare these next-year cost projections to the total current-year dollars when multiplying rates times enrollment—and that leads to the needed percentage change in rates from this year to next year:

$$\frac{\text{2021 Total Projected Plan Cost}}{\text{2020 Rates x Enrollment}} = \text{Needed Rate Change Factor (2021 vs. 2020)}$$

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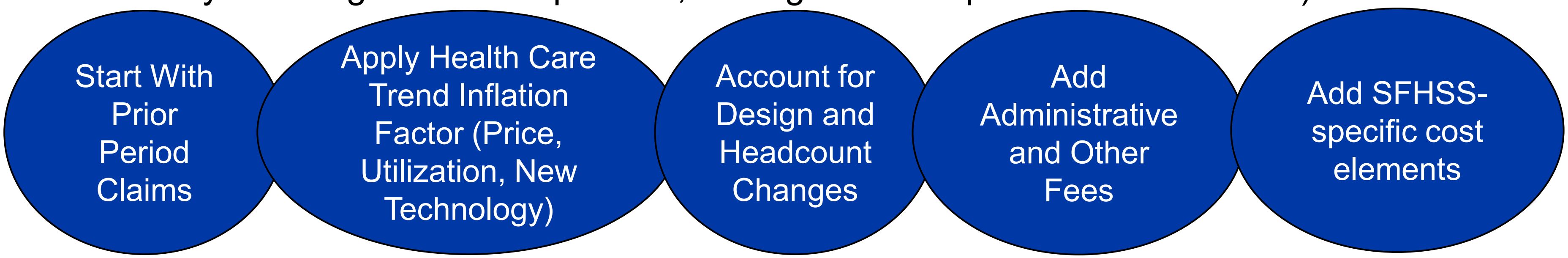
The Underwriting Process—Who Performs Each Step

Responsibility for Each Step in Underwriting Process

- Who completes the first four steps below depends on the funding method (with the Aon actuary handling the fifth step below, adding SFHSS-specific cost elements).



- **Self-Funded:** Aon actuary completes all steps above with input from self-funded plan administrator for administrative/other fees.
- **Flex-Funded:** Aon actuary completes all steps above with input from flex-funded plan administrator for suggested trend inflation factor and administrative/other fees (including fees for any applicable large claim pooling and per member capitation rates).
- **Fully Insured:** Plan actuary completes first four steps above to determine quoted insurance rates—with Aon actuary scrutiny of all underwriting assumptions used to develop recommended plan insurance premium rates (Aon actuary then handles fifth step above).

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Fully Insured Plan Underwriting Approaches

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Fully Insured Plan Underwriting Approaches

- Two Primary Methods of Fully Insured Plan Underwriting
  - **Experience Rating**—rates developed from projection of **client-specific plan experience** projected forward to new plan year.
  - **Community Rating**—rates developed based on plan's projection of **book-of-business plan experience** across its client book of business, projected forward to new plan year.
- Primary differentiator in method used by a given health plan for a given product (e.g., medical, dental, vision) is the size of the client's population in the plan.
  - Experience rating is typically utilized in full with populations with 1,000 covered lives or more (though the threshold can vary by insurer/plan type).
  - Community rating is typically utilized in full with populations of several hundred covered lives or less (threshold varies by insurer/plan type).
  - Some insurers will apply a blended method of experience and community for populations of certain sizes, with the percentage allocation to experience in a blended method increasing as population size increases.

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Fully Insured Plan Underwriting Approaches

- Even with pure experience rating, insurers use varied approaches to stabilize year-over-year rate changes, similar to the Rate Stabilization Reserve policy used by SFHSS on its self-funded and flex-funded plans—these can include:
  - **Experience period determination/weighting**—some insurers use 12 months of plan experience as the basis for their plan underwriting; some insurers use multiple historical periods for cost basis to determine projection year rates.
  - **Large claim pooling**—many medical insurers apply a large claim smoothing method to spread very high claimant experience in their book of business across their clients in underwriting (pool out client-specific high cost claims, add back a book-of-business based pooling charge on a per member basis)—per covered life large claim amounts for pooling typically vary by insurer and the covered population size.

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Fully Insured Plan Underwriting Approaches

- Most SFHSS fully-insured health plans utilize the **experience rating method** in derivation of projection year insured premiums, given large population sizes enrolled in each SFHSS fully insured health plan.
  - Reimbursement projections from the Centers of Medicare and Medicaid (CMS) also factor heavily into how Kaiser and UHC develop end-state SFHSS plan insured premiums for these Group Medicare Advantage plans.

- Kaiser's multi-region HMO plans for retirees utilize the **community rating method** due to the small SFHSS population sizes in these plans (113 covered lives across the Kaiser Washington, Northwest, and Hawaii plans as of mid-2020).
  - Rate changes for the Kaiser multi-region retiree plans for SFHSS are based on aggregate plan experience to premium for Kaiser's book of business in each region's geography, with adjustments for SFHSS demographic changes and plan design changes, if applicable.